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Office of the Secretary, PCAOB
1666 K Street, N.W.
Washington, D.C.
20006-2803

Re: PCAOB Rulemaking Docket Matter No. 34, *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards*

Dear Sir/Madam,

We appreciate the opportunity to respond to the PCAOB's *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards* (herein referred to as "Concept Release").

USG Corporation (herein referred to as "we" and "our"), through our subsidiaries, is a leading manufacturer and distributor of building materials with annual revenues of approximately \$3 billion. We produce a wide range of products for use in new residential, new nonresidential, and residential and nonresidential repair and remodel construction as well as products used in certain industrial processes. Our major product lines include SHEETROCK[®] brand gypsum wallboard and joint treatment products, DUROCK[®] brand cement board and FIBEROCK[®] brand gypsum fiber panels.

Overall, we do not support a standard-setting project to modify current auditing standards resulting in an increase in audit scope or a significant expansion of the independent auditor's reports. We do not believe that the proposals in the Concept Release will materialize into an increase in financial statement transparency or relevance as decisions by financial statement users are made throughout the year, and not made only in connection with annual filings. While we believe elements of the auditor's reports could be updated to clarify certain auditor responsibilities, we do not believe that clarification is necessary for financial statement users to understand the responsibility of the independent auditor. The proposed modifications will have the unintended consequence of absolving the financial statement user from the responsibility of developing an understanding of the auditor's role and the audit process independent of our auditor's reports.

1. Many have suggested that the auditor's report, and in some cases, the auditor's role, should be expanded so that it is more relevant and useful to investors and other users of financial statements.

a. Should the Board undertake a standard-setting initiative to consider improvements to the auditor's reporting model? Why or why not?

We do not believe that changes to the auditor's reporting model are needed as they would not enhance investors' and other financial statement users' understanding of a public company. Rather, any expansion of the auditor's role could bring the auditor's independence into question as under the proposed changes they would have to effectively function as an auditor and analyst. The likelihood of this result would run counter to the Board's stated objectives of transparency and relevance. Therefore, unintended consequences should be seriously considered prior to any

adoption or implementation. In addition, such considerations would likely increase the time and cost of an audit, increase other professional fees, and potentially delay a company's Securities and Exchange Commission ("SEC") filings. The auditor's role has always been to provide reasonable assurance that the financial statements are free of material misstatement and can be relied upon by investors and other users of the financial information. This assurance has been and should continue to be limited to the reasonableness of the financial statements in accordance with U.S. GAAP.

b. In what ways, if any, could the standard auditor's report or other auditor reporting be improved to provide more relevant and useful information to investors and other users of financial statements?

It is a responsibility of a public company to provide investors and other financial statement users with information to make investing, lending or other significant financial decisions about the company. Information that is relevant and useful in making significant financial decisions about a company should only be provided by management. In addition, this information is already provided in documents filed with the SEC, including (but not limited to) Form 10-K, Form 10-Q, Form 8-K, and the Proxy Statement, as well as press releases and earnings calls. The audit report is issued to provide reasonable assurance that the financial statements are free of material misstatement and in accordance with U.S. GAAP. We believe the current audit report sufficiently states the reasonableness of the financial statements and no improvements are necessary.

Investor relations departments field many inquiries from investors and analysts for which the answers could be found in the public filings. It is questionable that increasing content of already voluminous filings would create greater understanding of the financial statements or provide more transparency. Quite the contrary, we believe that this would merely create questions on the part of investors, as much of the proposal by the Board would add narrative that is boilerplate or information without the benefit of further elaboration or context.

c. Should the Board consider expanding the auditor's role to provide assurance on matters in addition to the financial statements? If so, in what other areas of financial reporting should auditors provide assurance? If not, why not?

We do not believe expanding the auditor's role on matters in addition to the financial statements would provide a greater amount of certainty to financial statement users, nor would it increase the amount of relevant information already provided. The cost of expanding the auditor's role would be significant and would outweigh the benefit. Information is presently communicated by management to investors, analysts and financial statement users through quarterly press releases, earnings calls and other webcast presentations, Form 10-Q filings and other event-driven filings; and investors, analysts and others are using this information to make investment decisions, despite not having an opinion or other commentary by an auditor. We do not see the benefit of an auditor providing assurance on information contained in the annual 10-K filing in addition to the annual financial statements when decisions are currently being made by financial statement users throughout the year.

2. *The standard auditor's report on the financial statements contains an opinion about whether the financial statements present fairly, in all material respects, the financial condition, results of operations, and cash flows in conformity with the applicable financial reporting framework. This type of approach to the opinion is sometimes referred to as a "pass/fail model."*

a. Should the auditor's report retain the pass/fail model? If so, why?

An audit report should be retained as pass/fail. Any alternative to the pass/fail model will only create misunderstanding as to the quality of the financial statements. Suggesting that there could be varying degrees of quality within financial statements, or providing a "range of reasonableness" does not add valuable information to the user of the financial statements. If the standard the auditor is attesting to is "reasonable within all material respects," then any varying degree of reasonableness, by definition, would not be material to the user. Therefore, additional information provided in the audit report would not benefit financial statement users at a level that would outweigh the significant cost that would be incurred to provide that information. Financial statements are as of a point-in-time, and not necessarily indicative of future results. Users having knowledge of anything other than pass or fail will not provide more useful information on the expected future results of the company. Furthermore, it is not, and should not be, the auditor's responsibility to provide outlook to financial statement users.

b. If not, why not, and what changes are needed?

Not applicable. No changes to the pass/fail model are necessary.

c. If the pass/fail model were retained, are there changes to the report or supplemental reporting that would be beneficial? If so, describe such changes or supplemental reporting.

Except for certain clarifications as described in our response to Question 21, we do not believe it is necessary to include any supplemental reporting by the auditor.

3. *Some preparers and audit committee members have indicated that additional information about the company's financial statements should be provided by them, not the auditor. Who is most appropriate (e.g., management, the audit committee, or the auditor) to provide additional information regarding the company's financial statements to financial statement users? Provide an explanation as to why.*

Information is presently communicated by management to investors, analysts and financial statement users through quarterly press releases, earnings calls and other webcast presentations, Form 10-Q filings and other event-driven filings; and investors, analysts and others are using this information to make investment decisions, despite not having an opinion or other commentary by an auditor. Investors frequently contact investor relations departments to discuss information already contained in public filings or to request additional information. It is the responsibility of management to ensure that information disclosed through a company's public filings and announcements and its investor relations department is accurate and consistent and is within the boundaries of what management is required, able and willing to disclose to financial statement users. Management is responsible and in the best position to ensure that enterprise risk is managed through any disclosure activity.

Management has the greatest knowledge regarding its company and related business and thus is in the best position to provide additional information regarding the company's financial statements. It is inconsistent to propose that a separate reporting model on information contained outside the financial statements or expansion of the auditor's reporting model in connection with the annual audit would provide users with a greater level of comfort over the financial statements when decision-making information is disseminated by management and is used by financial statement users throughout the year without any auditor assurance.

4. Some changes to the standard auditor's report could result in the need for amendments to the report on internal control over financial reporting, as required by Auditing Standard No. 5. If amendments were made to the auditor's report on internal control over financial reporting, what should they be, and why are they necessary?

We do not believe any amendments are necessary to the audit report on internal control over financial reporting.

5. Should the Board consider an Auditor Discussion and Analysis ("AD&A") as an alternative for providing additional information in the auditor's report?

We do not support an AD&A as an alternative method of providing additional information in the auditor's report. Any proposal of AD&A will add significant time and cost and will materially alter the historical relationship of the independent auditor and management. In addition, it will undermine the audit committee and its responsibilities.

a. If you support an AD&A as an alternative, provide an explanation as to why.

We do not support the AD&A as an alternative because it does not promote the Board's objectives of transparency and relevance. We believe the auditor's responsibility is clearly defined in the existing PCAOB Audit Standards. Those standards state that "the auditor has the responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud" and that the "objective of an audit of the financial statements is the expression of an opinion on the fairness with which they present, in all material respects, financial position, results of operations, and its cash flows in conformity with generally accepted accounting principles."¹ The auditors are not, nor should they be, responsible for discussion and analysis. This responsibility is, and should continue to be, the role of management and the audit committee. If investors are looking for third party analysis for their determination of the risk and reward of investment in a certain company, they should contract with analysts to perform such tasks to their specifications based upon their assessed risk portfolio.

The auditor is to perform tasks to mitigate audit risk and to opine that management's financial statements are free from material misstatement in accordance with U.S. GAAP. The auditor should not opine on how the statements could be presented differently if they were management. If financial statements do not currently provide the proper transparency and relevance, then U.S. GAAP should be amended. The necessary transparency and relevance should not be achieved by the expansion of the auditor's role or report.

b. Do you think an AD&A should comment on the audit, the company's financial statements or both? Provide an explanation as to why. Should the AD&A comment about any other information?

We do not believe that an AD&A should comment on the audit or the company's financial statements. We believe that the redundancy of such comments would not provide additional transparency or understanding for the financial statement users. We will continue to reference throughout our response the theme and goals of the Concept Release – of transparency and relevance without the sacrifice of audit quality. We continue to believe that the proposals to change the auditor's reporting model will not meet these goals but will hinder them.

The standards for conducting audits are available through various public means including the PCAOB, the SEC, and the Center for Audit Quality ("CAQ"). If the real objective of this proposal

¹ AU Section 110, *Responsibilities and Function of the Independent Auditor*

is education of the audit process, then the Board should engage in activities to enhance its own mission and not create additional costly reporting requirements.

The inherent nature of the additional auditor commentary will do little to promote relevance of reporting. On the contrary, this language will largely be repetitive of reporting already contained within existing financial statements and of publically available information which discusses the auditor roles and responsibilities. Furthermore, additional information would likely increase the current perception that the reporting is too dense, lengthy and obtuse to promote transparency.

c. Which types of information in an AD&A would be most relevant and useful in making investment decisions? How would such information be used?

We do not believe most investors would find an AD&A relevant or useful in making investment decisions. On the contrary, investment decisions and models for large institutional investors who rely on various, short, mid and long-term valuation models are made throughout the year, and not necessarily in conjunction with the audited financial statements or the corresponding information. Investors believe that an audit is an integral part of their trust in the reasonableness of the financial statements when making investment decisions, however, having an in-depth knowledge of the process on how that audit is conducted, we believe is not relevant in their decision making. In addition, if investors believe that having an understanding of the audit process is an integral part of their investment decisions, they can obtain that understanding through existing resources.

The auditor should not be tasked to analyze the company's results or to comment, specifically on management's forward-looking statements. This would materially change the auditor's historical role and may impair independence and negatively alter management's relationship with the auditor.

d. If you do not support an AD&A as an alternative, explain why.

We do not believe an AD&A promotes any of the objectives of the Board's Concept Release. Please see responses to questions 5a, 5b and 5c.

e. Are there alternatives other than an AD&A where the auditor could comment on the audit, the company's financial statements, or both? What are they?

We do not believe that there is a need for the auditor to further comment on either the audit or the company's financial statements. The audit report provides the necessary information relevant to convey the reasonableness of the financial statements, and information about the nature, purpose and scope of an audit is publically available to financial statement users through various channels.

6. What types of information should an AD&A include about the audit? What is the appropriate content and level of detail regarding these matters presented in an AD&A (i.e., audit risk, audit procedures and results, and auditor independence)?

We do not believe there is a need for an AD&A. The overall objectives of the Board are to assist and protect investors. The proposed AD&A is not in line with these objectives. The language of an AD&A would be boilerplate in order to discuss audit risk and independence in a comprehensive and consistent voice to demonstrate universal policies and procedures, or would be so voluminous in order to provide appropriate context to audit procedures and results that financial users would likely not read such a report.

Audit risk is addressed in the current auditing standards. If users of public financial information require education on audit risk and its relationship to the audit, then the PCAOB and the SEC in conjunction with the AICPA should plan and provide additional forums, such as literature, workshops and trainings to

better disseminate the existing information. This process would be appropriate for audit procedures and auditor independence, as well.

Further, auditor independence is clearly defined in multiple existing sources and is referenced as part of the title of the audit opinion. We strongly believe that additional commentary on the topic of auditor independence would be redundant. This commentary would add more words to an already extensive and exhaustive reporting package without adding meaningful information.

Lastly, the auditor already comments on the results of the audit in the issuance of an unqualified audit opinion. If the auditor did not receive appropriate results from the audit procedures performed, the unqualified report would not have been issued. We do not believe that adding specific content about the audit procedures would provide financial statement users with any further comfort of the ultimate conclusion on the reasonableness of the financial statements, nor would knowledge of the procedures perform change their investment decisions.

7. What types of information should an AD&A include about the auditor's views on the company's financial statements based on the audit? What is the appropriate content and level of detail regarding these matters presented in an AD&A (i.e., management's judgments and estimates, accounting policies and practices, and difficult or contentious issues, including "close calls")?

We do not recommend the use of an AD&A in total and in specific. Therefore, we do not recommend it include any content or level of detail. Information about management's judgments and estimates, accounting policies and practices is already a required disclosure in both the Form 10-K and the notes to the financial statements. We continue to assert that any further discussion by the auditor of management's judgments, estimates, accounting policies and practices, etc., would not increase transparency or relevance to the users of public financial reports.

In the existing auditor's opinion, the auditor provides reasonable assurance of the amounts and disclosures in the financial statements, the accounting principles used and significant estimates made by management, and the overall financial statement presentation. This opinion encompasses the areas that are considered to have "expanded" analysis and review. If the auditor determines that amounts or management's estimates are not properly disclosed in the financial statements in accordance with U.S. GAAP, the auditor would not issue an unqualified or 'pass' opinion. Therefore, we do not see the benefit in additional and repetitive information.

If the Board and its constituents are contending that U.S. GAAP and SEC rules do not adequately require the level of detail or clarity related to management's critical accounting measurements, auditor commentary is not the means to achieve those goals. The Board should collaborate with the FASB and SEC to clarify and/or modify U.S. GAAP through the appropriate channels.

Furthermore, the discussion of "difficult or contentious issues," including "close calls" should not be included in public disclosure. Such disclosure would certainly alter the historical management/auditor relationship and would create confusion to the users of the financial statements. It would inherently create an adversarial environment and lessen communication between management and auditor which would work contrary to the stated objectives of the Board. The disclosure would reduce transparency as management would need to manage the public disclosure risk of these items. Additionally, it is inherent in the issuance of the auditor's report that all "difficult or contentious issues" and/or "close calls" have been resolved.

Management has a responsibility to mitigate enterprise risk to preserve shareholder value. This responsibility includes the public disclosure risk, specifically reputational risk. If the disclosure of "close calls" is required, then management, in complying with its responsibilities, would become more cautious

in its relationship and communication with its auditor. The result of the newly created adversarial relationship is a lengthened audit process and, consequently, increased professional fees incurred by management. Additional fees could also be incurred from other advisers engaged to reduce disclosure risk. Therefore, the transparency would be reduced by management's risk management responsibility and the relevance by the delay in public reporting. These incremental costs only detract from shareholder value without discernable benefit. Accordingly, these proposals do not meet the Board's stated objectives.

8. Should a standard format be required for an AD&A? Why or why not?

We do not believe that an AD&A should be required. If one was required, a standard format would be necessary for consistency and comparability. However, that in and of itself would compromise the value of the AD&A. We believe that it is moot on whether a standard format is required or not as public accounting firms would gravitate toward a standardized format that would have variations between firms based on style rather than substance, in order to mitigate their own risks associated with such disclosure.

9. Some investors suggested that, in addition to audit risk, an AD&A should include a discussion of other risks, such as business risks, strategic risks, or operational risks. Discussion of risks other than audit risk would require an expansion of the auditor's current responsibilities. What are the potential benefits and shortcomings of including such risks in an AD&A?

As previously stated, the historical role of the auditor does not include a discussion of other risks and we believe that it should not be the future role of the auditor. Audit risk that applies to all public audit engagements is clearly defined in the auditing standards of the Board. If the Board does not believe that the current standards are adequate, then the Board should amend those standards accordingly.

As stated above, any discussion about specific audit risk related to a company would materially increase enterprise risk and alter the historical relationship between the auditor and management and run counter to the stated objectives of the Board in this Concept Release. Further, any discussions of other risks such as business, strategic and operational are management's responsibility and should remain their responsibility. These risks are already required to be disclosed in Item 1A of Form 10-K and in MD&A. Specifically, Regulation S-K 503 (c) requires that the disclosure of risks be specific to the entity. Management is required to evaluate the risks of the entity and disclose those specific risks along with an explanation of how those risks affect the Company. Furthermore, material changes in any risks disclosed in the Form 10-K are required to be disclosed in the Form 10-Q. Since an auditor is required to already read such information contained in the Form 10-K, any omission by management of a material risk would have been raised by the auditor under the requirements of Statement on Auditing Standards ("SAS") No. 8. We do not see the benefit of requiring the auditor to highlight certain or all of these disclosed risks in any separate report. Any further disclosure by the auditor of additional risks would suggest that management had not fulfilled their responsibility to properly identify and disclose the risks of the Company. Therefore, any reporting by the auditor would be redundant, or would refer to the relevant section of the 10-K where this information is already disclosed.

Further, investors should assess these risks independently of the auditor. The auditor is not tasked to be investors' advisor and it should not be in the future. Such changes to the role of the auditor would place additional material risk on the financial system as a whole, not reduce it, which we believe runs contrary to the stated objectives of the Board. The costs associated with such a change would significantly exceed any benefit.

10. How can boilerplate language be avoided in an AD&A while providing consistency among such reports?

We believe boilerplate language is unavoidable regardless of the regulations and/or guidance related to an AD&A. Audit firms would either likely require boilerplate language or material increases in fees to manage the additional risks associated with specific disclosures on a company by company basis. We do not believe the language would actually provide current and relevant information to investors prior to making investment decisions once interim period information was available and could increase litigation and its associated costs for companies and auditors. We also believe the threat of increased litigation risk could reduce transparency and relevance if it results in less meaningful disclosure.

11. What are the potential benefits and shortcomings of implementing an AD&A?

We do not anticipate any benefits in the implementation of an AD&A. Its shortcomings are numerous and delineated in detail in the previous responses. To summarize, the proposal would change the historical relationship of the financial statement auditor and management. An AD&A would also increase risk for both the company and the auditor, thus increasing compliance cost for the company and reducing enterprise value. An AD&A does not promote transparency or relevance and, therefore, should not be implemented.

12. What are your views regarding the potential for an AD&A to present inconsistent or competing information between the auditor and management? What effect will this have on management's financial statement presentation?

We believe that inconsistent, or competing, information would be minimal over the long term. In general, management, which is tasked to minimize enterprise risk, will work toward virtual symmetry in the reporting of management and the auditor. There will be significant cost to companies to reach this long-term state. The result will be a less transparent disclosure by management.

13. Would the types of matters described in the illustrative emphasis paragraphs be relevant and useful in making decisions? If so, how would they be used?

We believe that the types of matters suggested for emphasis paragraphs would not be relevant or useful. We question the extent to which financial statement users are presently reading the financial statements, related notes and other information contained in public filings. As such, a requirement by the auditor to emphasize certain aspects of the financial statements will further encourage financial statement users to focus only on what they will interpret as the most important aspects of the financial statements as highlighted by the auditor. The critical accounting policies and key estimates made by management are disclosed in detail in the critical accounting policies section of Management's Discussion and Analysis ("MD&A") and in the financial statement notes. Additionally, financial statement notes are required to explain management's significant accounting policies. These critical accounting policies and the notes referenced within, if completed in accordance with U.S. GAAP and SEC rules, sufficiently provide the reader of the financial statements with the information needed to understand the financial statement areas the auditor spends a significant amount of time on during the audit. Any other significant transactions that would be relevant during an accounting period would have been highlighted by management both in MD&A as well as the notes to the financial statements. Highlights from the auditor would not be necessary.

14. Should the Board consider a requirement to include areas of emphasis in each audit report, together with related key audit procedures?

We do not believe that the Board should require the reporting of areas of emphasis together with key audit procedures. As discussed in our response to Question 13, the relevant and necessary information is

already included in the financial statements, notes and MD&A. An emphasis paragraph would be redundant as it would be pointing out areas already discussed in the notes and MD&A. Also, this concept relies on the auditor to make key judgments as to what might be important to a financial statement user, which would likely differ from one financial statement user to the next. We do not believe that it is the auditor's responsibility to be making determinations on which matters to highlight separate and apart from the financial statements as a whole. Such emphasis, as we mentioned previously, could result in the financial statement user focusing on those areas highlighted by the auditor and encourage users not to read the financial statements and notes thereto in their entirety.

Additionally, any descriptions of the auditor's procedures could not provide sufficient detail to enable a reader to completely understand the depth of the audit procedures performed by the auditor. Those procedures without context, including a thorough understanding of internal controls over financial reporting, could be misunderstood as to sufficiency and completeness on the part of the financial statement user. The process of how the auditor assesses management's estimates and judgments is described in various publications available to the public and would not add value if disclosed in every auditor's report on a public company's financial statements. We believe that it would be more appropriate for the PCAOB and the SEC in conjunction with the AICPA to provide educational forums to better disseminate information already available to the public.

15. *What specific information should required and expanded emphasis paragraphs include regarding the audit or the company's financial statements? What other matters should be required to be included in emphasis paragraphs?*

None, as noted above.

16. *What is the appropriate content and level of detail regarding the matters presented in required emphasis paragraphs?*

None, as noted above.

17. *How can boilerplate language be avoided in required emphasis paragraphs while providing consistency amount such audit reports?*

We believe that boilerplate language would be unavoidable. The potential legal ramifications of the auditor highlighting specific disclosures and not others would lead to high level, non-value added, boilerplate language used by every firm. Further, "boilerplate" language would be a necessity in order to promote relevancy to the financial statement users. The current comparability of the auditor's opinion is essential to financial statement users as to understand multiple companies under a common framework.

Additionally, emphasis paragraphs would change the historical role of the auditor into that of an analyst. The current marketplace already has individuals and firms who provide this market and analysis service.

18. *What are the potential benefits and shortcomings of implementing required and expanded emphasis paragraphs?*

We believe that there are no potential benefits, but there are numerous shortcomings to implementing required emphasis paragraphs. Most importantly, emphasis paragraphs would not provide additional value to the financial statement users because (1) they would likely be boilerplate, (2) they would encourage the financial statement users to focus on information that may or may not be relevant to them, and, (3) at best, they would be repetitive of the critical and significant accounting policies already reported. We believe that emphasis paragraphs could mislead readers by focusing the user on information the auditor believes would be most significant to a financial statement user and distract the users' attention from other important aspects of the financial statements as a whole.

19. Should the Board consider auditor assurance on other information outside the financial statements as an alternative for enhancing the auditor's reporting model?

No, we do not believe that auditor assurance on other information outside of the financial statements is necessary. Since the audit report is filed along with the financial statements in the Form 10-K, the auditor is already associated with the other information in the document containing the audited financial statements. Furthermore, the auditor is already required under SAS No. 8 to perform certain procedures. We believe that the level of responsibility under SAS No. 8 is sufficient and does not need to be expanded.

MD&A is intended to provide narrative explanation of the financial statements and other statistical data that management believes will enhance financial statement users' understanding of the financial results of the company, as well as the inclusion of forward-looking information. An auditor should not be expected to opine on forward-looking information, nor on management's judgment on what will enhance users' understanding of a company's results or what trends or uncertainties it faces. The MD&A is intended to be the view through the eyes of management, not the auditor. Any attempt to provide assurance of such disclosures may result in management eliminating such information that financial statements users find useful in developing their investment valuation models. An opinion by an auditor with respect to this information will not make it more reliable. In fact, an opinion by the auditor on such information would likely be misinterpreted by a financial statement user as to its reliability. Further, the cost associated with an auditor moving beyond verification of historical financial information to being responsible for forward-looking and other MD&A commentary would be burdensome, result in lengthier audits and detract from shareholder value. We believe that there is sufficient information in the financial statements and notes that provide investors with adequate disclosures about a company. If the Board does not believe that there is adequate disclosure in the current financial statement presentation, it should work through the FASB and the SEC to make the desired changes.

a. If you support auditor assurance on other information outside the financial statements as an alternative, provide an explanation as to why.

We do not support auditor assurance on other information outside the financial statements. We believe this has numerous negative consequences to the financial statement reporting process without any corresponding, cost effective benefit.

b. On what information should the auditor provide assurance (e.g., MD&A, earnings releases, non-GAAP information, or other matters)? Provide an explanation as to why.

We do not support auditor assurance on information outside the financial statements.
See comments above.

c. What level of assurance would be most appropriate for the auditor to provide on information outside the financial statements?

As we have previously discussed, the auditor is already required under SAS No. 8 to read the other information contained outside of the financial statements and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of presentation appearing, in the company's financial statements. We believe that this level of responsibility is sufficient and appropriate for the auditor. We do not believe that it is appropriate, nor do we see the cost benefit of having an auditor provide a higher level of assurance. We are unclear as to why the current responsibilities of the auditor under SAS No. 8 do not meet the Board's objectives for information outside of the financial statements.

d. If the auditor were to provide assurance on a portion or portions of the MD&A, what portion or portions would be most appropriate and why?

We do not support the auditor providing assurance on MD&A in part or in whole. We believe that the auditor's responsibilities under SAS No. 8 currently provide the required level of review necessary. If the Board believes that the auditor's responsibilities under SAS No. 8 are unclear to financial statement users then we believe that the Board should address that in the appropriate education forum.

e. Would auditor reporting on a portion or portions of the MD&A affect the nature of MD&A disclosures? If so, how?

We do not believe that that auditor reporting on MD&A would affect the nature or quality of MD&A components that discuss the results of operations because those disclosures are addressing the historical financial statement results. However, if the auditor would be required to opine on forward-looking statements or other commentary in the MD&A, then we would anticipate less disclosure rather than more as companies felt more constrained on providing guidance or other market-related outlook information, which would reduce transparency to the financial statement users and run counter to the goals of the Concept Release.

f. Are the requirements in the Board's attestation standard, AT sec. 701, sufficient to provide the appropriate level of auditor assurance on other information outside the financial statements? If not, what other requirements should be considered?

We believe that the requirements in the Board's attestation standard, AT sec.701 are sufficient to provide appropriate level of auditor assurance on other information outside the financial statements.

g. If you do not support auditor assurance on other information outside the financial statements, provide an explanation as to why.

Information is presently communicated by management to investors, analysts and financial statement users through quarterly press releases, earnings calls, Form 10-Q and Form 10-K filings, proxy statements and other event-driven filings. Investors, analysts and others are using this information to make investment decisions, despite not having an opinion or other commentary by an auditor. It is inconsistent to propose that a separate reporting model on information contained outside the financial statements, or expansion of the auditor's reporting model in connection with the annual audit would provide users with a greater level of comfort over the financial statements when decision-making information is disseminated by management and used by financial statement users throughout the year. To make this Concept Release relevant to financial statement users, a year-round reporting requirement would be necessary which would be neither cost effective nor result in the dissemination of timely information to the financial statement users.

20. What are the potential benefits and shortcomings of implementing auditor assurance on other information outside the financial statements?

We see no benefits of implementing auditor assurance on other information outside the financial statements. We believe the objectives of the Board and the Concept Release can be met without additional auditor assurance. The shortcomings include increased audit fees and workload. This will occur regardless of company size and available financial resources. The corresponding increased internal

work will continue to strain limited resources while not adding any value. Furthermore a requirement to provide assurance on qualitative disclosures would add significant time and complexity to the audit. We do not believe these changes are necessary because adequate protocols, including SAS No. 8, currently exist that allow investors to rely on information outside the financial statements.

21. *The Concept Release presents suggestions on how to clarify the auditor's report in the following areas:*

- *Reasonable assurance*
- *Auditor's responsibility for fraud*
- *Auditor's responsibility for financial statement disclosures*
- *Management's responsibility for the preparation of the financial statements*
- *Auditor's responsibility for information outside the financial statements*
- *Auditor independence*

a. Do you believe some or all of these clarifications are appropriate? If so, explain which of these clarifications is appropriate? How should the auditor's report be clarified?

We believe that certain of the above items could be clarified in the audit report. However, we do not believe that these clarifications are necessary, as the responsibilities and role of the auditor are clearly defined in auditing standards. We do not support an overhaul of the report as an auditor's full responsibility cannot be meaningfully explained in such a report. As we have mentioned previously, information regarding auditor responsibility and the standards under which an audit is conducted, are publically available for interested parties. Including them as part of the audit report would only add volume, but not clarity to users of the financial statements.

We believe that the items underlined in the following example audit report could be included in the current report, with no incremental procedures required by the auditor. A discussion of our rationale for each inclusion follows the example audit report.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of XYZ Company:

We have audited the accompanying balance sheets of XYZ Company as of December 31, 20X3 and 20X2, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 20X3. Our audits also included the notes to the consolidated financial statements and the financial statement schedule, Schedule II-Valuation and Qualifying Accounts. These financial statements, notes to the financial statements and financial statement schedule have been prepared by and are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements, notes to the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above and the related notes and financial statement schedule present fairly, in all material respects, the financial position of the XYZ Company as of December 31, 20X3 and 20X2, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 20X3, in conformity with U.S. generally accepted accounting principles.

As required by Statement on Auditing Standards (SAS) No. 8, we read the information in the Company's 20X3 Form 10-K ("other information") in addition to the financial statements, notes to the financial statements and financial statement schedules covered by this report. The objective of the reading was to consider whether the other information was materially inconsistent with information appearing in the financial statements. SAS No. 8 does not require that we perform, and we did not perform, any procedures to corroborate the other information and therefore we do not express an opinion on the other information. However, as a result of reading the other information, we did not conclude that there were any material inconsistencies between the other information or the manner of its presentation, and the information appearing in the financial statements or its manner of presentation.

i. Reasonable assurance

If there is any confusion on the part of financial statement users with respect to the level of assurance that is being obtained from the audit report, then expanding the discussion on how reasonable assurance is defined will not provide financial statement users with any more comfort. We believe that it would be appropriate to define reasonable assurance by what it is not: absolute assurance.

ii. Auditor's responsibility for fraud

We believe that it is appropriate that the auditor's responsibility for fraud can also be described by stating that the auditors provide reasonable assurance that the financials and corresponding schedules and notes are free of material misstatement "whether due to error or fraud."

iii. Auditor's responsibility for financial statement disclosures

While each financial statement included in a company's financial statements is required to include the statement that "the notes to the financial statements are integral to the statements," we believe that additional language could be added to the auditor's report to explicitly identify that the notes to the financial statements are covered by the audit report.

iv. Management's responsibility for the preparation of the financial statements

Although it seems that the current statement contained within the audit report that "the financial statements are the responsibility of the Company's management" sufficiently denotes responsibility to a financial statement user and also implies that management would

therefore have prepared such statements (or have been responsible for the oversight of their preparation), if financial statement users would find that an explicit statement would provide additional clarity as to the party responsible for preparation, then we do not object to such an inclusion.

v. Auditor's responsibility for information outside the financial statements

Because the audit report is included along with the financial statements in the Form 10-K, the auditor becomes associated with the other information in the document containing the audited financial statements. Consequently, the auditor is already required under current SAS No. 8 to perform certain procedures. We believe that inclusion of the proposed paragraph would delineate the responsibility of the auditor between the financial statements and the other information included in the document containing such financial statements and related audit report. Since an auditor is already performing the procedures required by SAS No. 8, we do not believe that any incremental time or costs would be associated with including this standard paragraph in the audit report.

vi. Auditor independence

We believe that *Auditor Independence* should not be included in the audit report. The audit report is titled "Report of Independent Registered Public Accounting Firm." Additional discussion of independence in the audit report is therefore redundant and provides no value to the financial statement user. Furthermore, an audit firm is either independent or it is not. If a firm is no longer independent, it cannot opine on the financial statements. It is the responsibility of the audit committee and the audit firm to evaluate the auditor's independence. Any other information not already disclosed in the proxy statement would therefore not be relevant to the conclusion on independence. Financial statement users interested in an audit firm's system of controls surrounding independence may obtain that information directly from the audit firm.

b. Would these potential clarifications serve to enhance the auditor's report and help readers understand the auditor's report and the auditor's responsibilities? Provide an explanation as to why or why not.

Overall, these clarifications would not materially enhance the audit report nor would it help readers understand the audit report and the auditor's responsibilities, as we question whether financial statement users are presently reading the audit report. As we have previously discussed, the responsibility of the auditor is clearly and succinctly explained in the audit report. Further information on the specifics of conducting an audit is publicly available to interested users through the PCAOB, the SEC and the CAQ. The audit report is not the forum to explain such roles and responsibilities.

c. What other clarifications or improvements to the auditor's reporting model can be made to better communicate the nature of an audit and the auditor's responsibilities?

No other clarifications or improvements should be made to the audit report.

d. What are the implications to the scope of the audit, or the auditor's responsibilities, resulting from the foregoing clarifications?

For the changes that we support above, there would be no changes to the scope of the audit or to the auditor's responsibilities that would be necessary. We do not support changes to the audit report that will result in incremental audit time and expense.

22. What are the potential benefits and shortcomings of providing clarifications of the language in the standard auditor's report?

We do not believe that there are significant benefits to adding language to the audit report. Clarifications are already available to financial statement users who have an interest or desire in understanding the role and responsibility of the independent auditor through the CAQ, SEC and PCAOB.

We believe that the audit report in its current form with unqualified opinions or those containing explanatory paragraphs is appropriate. Adding length and terminology to the report would further discourage readers from reading it.

23. This Concept Release presents several alternatives intended to improve auditor communication to the users of financial statements through the auditor's reporting model. Which alternative is most appropriate and why?

We believe that the desire to improve auditor communication in this Concept Release will have the unintended consequence of absolving the financial statement user from the responsibility to read information already contained in financial statements and the Form 10-K and to have a comprehensive understanding of the audit process. Except for certain clarifications to the existing auditor's report as previously discussed, we do not believe the alternatives presented are appropriate.

24. Would a combination of the alternatives, or certain elements of the alternatives, be more effective in improving auditor communication than any one of the alternatives alone? What are those combinations of alternatives or elements?

No. We do not believe that any of the alternatives would be more effective in improving the auditor communication.

25. What alternatives not mentioned in this concept release should the Board consider?

If the Board believes that financial statement users require additional understanding of the audit process, the Board should collaborate with the CAQ and SEC to provide education to users of the financial statements with respect to the role of the independent auditor. User-education would eliminate the need to add already publically-available information to the audit report, and would appropriately retain the responsibility of reading and understanding the financial statements and related notes with the financial statement user.

26. Each of the alternatives presented might require the development of an auditor reporting framework and criteria. What recommendations should the Board consider in developing such auditor reporting framework and related criteria for each of the alternatives?

We do not believe that this is necessary based upon our responses to the questions in this letter.

27. Would financial statement users perceive any of these alternatives as providing a qualified or piecemeal opinion? If so, what steps could the Board take to mitigate the risk of this perception?

As discussed above, this proposal under the guise of improving auditor communication will have the unintended consequence of absolving the financial statement user from the responsibility of having a comprehensive understanding of the audit process in addition to reading information already contained in financial statements and the Form 10-K. Hence, any incremental elements to the audit report merely add “noise” to the ultimate conclusion that, at a reasonable level of assurance, the financial statements and related notes are a fair presentation and in all material respects, in accordance with U.S. GAAP. To suggest otherwise undermines the pass/fail notion of an audit. If the auditor reached the appropriate conclusion based upon the audit procedures performed, then any spectrum of pass is already determined to be materially correct (i.e., the financial statements and notes do not contain or omit material information that would impact a financial statement user).

28. Do any of the alternatives better convey to the users of the financial statements the auditor's role in the performance of an audit? Why or why not? Are there other recommendations that could better convey this role?

We do not believe that users of financial statements need to be educated about the auditor’s role in the performance of an audit through the audit report. Auditing standards are available to the public, and information regarding the role of the independent auditor is provided through the PCAOB, the SEC and the CAQ. There is a presumption that users of financial statements are informed and educated about the information they are reading. There is also a presumption that they are reading the audit report. Should a user of the financial statements find him/herself uninformed about the information referenced in the audit report, financial statements or filings, there are a multitude of places one could research and find the information sought.

29. What effect would the various alternatives have on audit quality? What is the basis for your view?

We do not believe that any of the alternatives presented would have an effect on audit quality. Audit quality is monitored both internally by the large accounting firms as well as externally by the Board. Certain of the alternatives proposed by the Board will, however, add considerable time and costs. Audit quality would only be affected if sufficient time is not allowed for the auditor to complete the incremental procedures that would be necessary for certain of the alternatives.

30. Should changes to the auditor's reporting model considered by the Board apply equally to all audit reports filed with the SEC, including those filed in connection with the financial statements of public companies, investment companies, investment advisers, brokers and dealers, and others? What would be the effects of applying the alternatives discussed in the Concept Release to the audit reports for such entities? If audit reports related to certain entities should be excluded from one or more of the alternatives, please explain the basis for such an exclusion.

Any changes to the audit report should apply to all entities, regardless of industry, size or filing status. However, the alternatives presented by the Board that require an increase in audit scope and procedures would add significant audit time and expense for all entities.

31. *This Concept Release describes certain considerations related to changing the auditor's report, such as effects on audit effort, effects on the auditor's relationships, effects on audit committee governance, liability considerations, and confidentiality.*

a. Are any of these considerations more important than others? If so, which ones and why?

All of these effects are significant considerations that should be considered carefully by the Board. We believe that the changes proposed in the Concept Release will reduce shareholder value through increased professional fees without discernable benefit and heighten enterprise risk, thus leading to increased liability considerations and potentially damaging a company's ability to control the release of confidential or competitive information. The proposals in this Concept Release combined with the Board's other proposal to require the rotation of auditors² will lead to a significant deterioration of the relationship between the auditor and management as there will be less incentive to the auditor to collaborate with a company's management to protect a company from risk associated with disclosure of competitively harmful information.

b. If changes to the auditor's reporting model increased cost, do you believe the benefits of such changes justify the potential cost? Why or why not?

Any changes to the auditor's reporting model will result in increased time and expense associated with the audit. Expanded reporting would necessitate audit firms to create or expand an internal centralized review of such reports, which increases the time and expenses associated with issuance of an audit report. Contrast this to the current unmodified report, which does not create the incremental costs, yet has appropriately and succinctly reported the results of the audit for many years. These costs will reduce shareholder value with no actualized benefits.

c. Are there any other considerations related to changing the auditor's report that this Concept Release has not addressed? If so, what are these considerations?

No further comments.

d. What requirements and other measures could the PCAOB or others put into place to address the potential effects of these considerations?

Not applicable

32. *The Concept Release discusses the potential effects that providing additional information in the auditor's report could have on relationships among the auditor, management, and the audit committee. If the auditor were to include in the auditor's report information regarding the company's financial statements, what potential effects could that have on the interaction among the auditor, management, and the audit committee?*

It is clear that the many aspects of the alternatives would result in a greater number of disagreements between management and the auditor than are currently experienced in practice. The difficulty with many of the alternatives in the Concept Release is that they rely on the judgment of the auditor without objective criteria by which to evaluate those judgments. We question whether the creation of objective criteria could be accomplished, as there are numerous examples where U.S. GAAP and SEC rules lack objective criteria. These differences of opinion could result in stalemates and an inability to resolve matters, ultimately impacting the timeliness of the completion of the audit, the information management

² PCAOB Release No. 2011-006 Concept Release on Auditor Independence and Audit Firm Rotation

is making publicly available to users of the financial statements, and certainly the relationship between the audit committee, management and the auditor. It is certain that many of the alternatives included in the Concept Release would result in increased time spent by both management and the audit committee, both of whom are already challenged on time.

If you have any questions about our comments or wish to discuss any of these matters further, please contact me at (312) 436-4282.

Yours sincerely,

A handwritten signature in blue ink that reads "Richard H. Fleming". The signature is written in a cursive style with a large, stylized initial "R".

Richard H. Fleming
Executive Vice President and Chief Financial Officer